



County of San Bernardino

# INTEROFFICE MEMO

**DATE** May 11, 2004  
*Mark H. Uffer*  
**FROM** MARK UFFER  
Interim County Administrative Officer  
**TO** MEMBERS  
Board of Supervisors

**PHONE** 387-5418

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**SUBJECT** REVISED FINANCING PLAN FOR 2004-05 BUDGET WORKSHOP

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On March 2, 2004, Wally Hill, then County Administrative Officer, presented to the Board of Supervisors a 2004-05 Budget Financing Plan. A copy of that agenda item is attached for your reference. That plan provided the basis for distributing locally financed budget targets to general fund financed departments to develop their 2004-05 proposed budgets. Those budget targets included up to a 21% reduction in local financing to departments. This reduction was recommended to cover the projected state budget decrease as well as to implement a form of zero-based budgeting. Wally Hill resigned from office in mid-March. I came into office shortly afterwards, and created a County Operating Budget Team to review these budget targets.

The County Operating Budget Team had discussions on budget issues/challenges facing the county in the next fiscal year and future years and what should be the best approach to take in building the upcoming 2004-05 budget targets. The team proposed to revise those 2004-05 budget target recommendations. Instead of the 21% reduction that was previously put forward, the County Operating Budget Team eliminated inflation financing, elected to reduce selected public safety departments by 4% (Sheriff, District Attorney, Public Defender and County Fire), recommended a 9% local cost reduction to the remaining general fund financed departments, and directed other operational and structural changes to be made in order to present a balanced budget. The Board of Supervisors approved these revised targets and enclosed in this workbook are the departmental budgets submitted and reviewed by the County Administrative Office.

The 2004-05 proposed budget workbook has been designed to be more user friendly for the Board of Supervisors, the departments, and the public. The workbook includes:

- A mission statement from each of the departments
- An organizational chart, which portrays what functions the department performs as well as how much staffing by function is included in their 2004-05 budget
- Expenditure and financing pie charts, which shows what % of the 2004-05 budget is spent on salaries, services, etc. as well as what % of financing sources such as local cost, fee supported revenues, etc. that is available to the department in 2004-05

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- The Board Approved Base Budget, which includes the approved costs mentioned in the March financing plan, impacts due to proposed state budget cuts (see consolidated listing of these in Attachment A) and any other Board approved agenda items.
- The Department Recommended Funded Adjustments, which includes any changes made by the department within their allocated local cost or other financing source

Any program or workload changes that could not be financed within current departmental allocation are presented as policy items in this workbook. A summary of the requested policy items is included as Attachment B. Fee ordinance adjustments are not incorporated in the enclosed budgets, but are included for approval. A summary of the requested fee adjustments is included as Attachment C. Details on the fees are included within the applicable departmental budget submittals. The majority of the requests are to increase appropriation if the fee is approved. A few of the departments submitted fee increases to restore their 9% local cost reduction. In addition, for some general fund departments, if the fee is approved it would save general fund financing by reducing the department's reliance on local cost.

**REVISED 2004-05 FINANCING PLAN**

Since March 2, 2004 the county has adjusted local cost allocations and have received additional actual data on discretionary revenue as well as departmental activity from March and April. This new information was analyzed and the County Administrative Office is revising the county's 2004-05 financing plan as follows:

	<b>(In Millions)</b>	
	<b>Ongoing</b>	<b>One-time</b>
<b>Financing Available as of March 2, 2004</b>	15.8	52.8
<b>Increase in Fund Balance</b>	-	1.8
<b>Adjustments to Local Cost:</b>		
Local Cost Reduction Savings	13.2	-
Not finance inflation	1.1	-
Use of Realignment for Mandated Backfill	1.4	-
<b>Subtotal Revised Financing Available</b>	31.5	54.6
<b>Set Aside for Future Retirement Costs</b>	(7.9)	-
<b>Revised Financing Available</b>	23.6	54.6
<b>State Budget Hit based on January Proposal</b>	(32.7)	
<b>Remaining Ongoing Deficit to Cover</b>	(9.1)	
<b>Financing Options In Process:</b>		
Furlough Savings	7.1	
Reorganization Savings	2.0	
<b>Balanced 2004-05 Proposed Budget</b>	-	

### **Increase In Fund Balance**

The County Administrative Office is expecting an increase in anticipated fund balance of \$1.8 million, from \$41.6 million to \$43.4 million, at the end of 2003-04 for three reasons. Departmental savings is anticipated to be \$12.8 million higher than projected in the March 2, 2004 financing plan. This is caused by the continued hiring freeze for all county departments, increased recording revenue in the Auditor's budget, decrease Court Ordered Placements for juveniles and using Prop 172 revenue to cover the Sheriff's shortfall instead of the general fund.

This increase in fund balance is offset by an estimated use of \$8.4 million in contingencies to assist in purchasing a building for court relocation and other county uses. In addition, discretionary revenue is estimated to net \$2.6 million less overall, mainly due to lower projections in vehicle license fees (VLF). This is occurring as a result of the signing of AB 1457 on May 4, 2004, which for this fiscal year only will shift an estimated \$165.0 million statewide from discretionary VLF to backfill realignment VLF.

### **Adjustments To Local Cost**

Included in the state's January Proposed Budget there is a proposal to take approximately \$32.7 million from the County of San Bernardino in the form of property tax revenue and booking fee revenue in order to help cover the State's deficit. These two discretionary revenue sources finance the department's local cost. Therefore, county departments were requested to build their 2004-05 proposed budget with a lower local cost allocation, which created savings of \$13.2 million. In addition, the revised financing plan does not finance inflation for 2004-05, which created savings of \$1.1 million. Also as part of the state's January Proposed Budget there is a proposal to shift a portion of local county child support collections to the state general fund, which presently cover the mandated local share required for that program. The original financing plan had the general fund backfilling this state shift in financing. The revised financing plan will use social services realignment to backfill this mandated local share, which allowed \$1.4 million to be redirected toward funding the county's shortfall. These adjustments total \$15.7 million in savings, which will assist in covering almost half of the projected reductions created by state's budget crisis.

### **Set Aside For Future Retirement Costs**

The county will be facing significant increases in retirement costs beginning in 2004-05 due to an estimated unfunded actuarial accrued liability (UAAL) of \$1.1 billion. It is for this reason that the county is setting aside \$7.9 million in ongoing financing to assist in covering these future costs. The county is also looking into issuing a pension bond to reduce interest expense on a portion of the UAAL.

### **Financing Options In Process**

Even with the adjustments to local cost, there is still an estimated \$9.1 million ongoing deficit in order to cover the state budget impact to discretionary revenue of \$32.7 million. Currently we are the possibility of implementing some form of furlough and conducting studies for reorganizations in order to generate additional savings to balance the 2004-05 budget.

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Furlough Savings

Representatives of the county have met with representatives of all employees associations to begin negotiations in possible reductions in labor costs to mitigate the effect of anticipated reductions in revenue primarily due to the state budget. All county MOUs are in effect at least until the end of the calendar year. The county cannot implement changes to current or anticipated compensation without the agreement of the affected county labor associations. The association representatives have asked for additional information regarding the budget and have asked that the Board give serious consideration to golden handshakes or other early retirement incentives. We are working to complete these analyses and will meet with the associations in May to discuss further.

Reorganization Savings

There are currently two reorganizations the County Administrative Office is evaluating to determine if potential general fund savings can be generated. The County Administrative Office is always constantly vigilant for any opportunities to make the county more efficient with taxpayer dollars.

The financing plan before you incorporates the combination of these two financing options in order to build a balanced 2004-05 budget, using ongoing revenue sources to finance ongoing costs. If any of the assumptions put forward in this plan change substantially, we will return to the Board of Supervisors to receive additional direction.

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**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS  
OF SAN BERNARDINO COUNTY, CALIFORNIA  
AND RECORD OF ACTION**

**March 2, 2004**

**FROM:**           **WALLY HILL**, County Administrative Officer  
County Administrative Office

**SUBJECT:**       **POLICY DIRECTION ON 2004-05 BUDGET TARGETS**

**RECOMMENDATIONS:**

1. Review the financing and policy issues identified in this report, including the spending and revenue projections used to develop the 2004-05 proposed budget financing plan, and the County Administrative Officer recommendations in developing budget targets.
2. Direct the County Administrative Officer to build departmental budget targets for the 2004-05 proposed budget based on the data and conclusions in this report, as modified by further Board action.

**BACKGROUND INFORMATION:** This report is the initial step towards development of the 2004-05 final budget. This report will be used as the basis for the development of budget targets to be issued to county departments. It describes how the county is financing the 2004-05 budget targets and how much available financing remains to address known issues, such as the state budget crisis.

Components of the financing plan included in this report are:

- Analysis of the 2004-05 financing plan:
  - 1) Financing Available
  - 2) Cost to Maintain Current Services
- Analysis of proposed state budget impact to the county
- 21% reduction in non-mandated 2004-05 local cost
- Review of county policies as to use of one-time funds and general-purpose revenues
- Summary of potential options for salary savings
- Conclusion

**2004-05 FINANCING PLAN**

Projections for additional financing available for next year's budget include \$54.2 million in ongoing funding sources and includes \$67.3 million in one-time sources as summarized on the chart below:

**FINANCING AVAILABLE FOR 2004-05**

	<b>(In Millions)</b>	
	<b>Ongoing</b>	<b>One-time</b>
Beginning Financial Position	14.3	29.4
New Discretionary Revenue	24.2	
New Prop 172 Revenue	15.7	
Estimated Additional One-Time Money Available		37.9
<b>Total Financing Available</b>	<b>54.2</b>	<b>67.3</b>

Record of Action of the Board of Supervisors

**BEGINNING FINANCIAL POSITION**

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When building the previous year's budget, the Board of Supervisors did not allocate a significant amount of ongoing and one-time sources in order to finance future funding issues. A portion of this money has been used during the year and the remaining unallocated balances are \$14.3 million in ongoing sources and \$29.4 million in one-time sources. This money is available to be used in 2004-05.

**NEW DISCRETIONARY REVENUE**

New discretionary revenue is outlined in the chart below. The growth from prior year's budget in discretionary countywide revenues is estimated to be \$24.2 million and is based on the following.

	(In Millions) Ongoing
Property Tax Assessed Valuation Growth	9.2
Property Transfer Tax	3.7
Motor Vehicle License Fee	5.0
Interest	1.8
COWCAP	1.5
Sales Tax	0.9
Other	2.1
<b>Total New Ongoing Discretionary Financing</b>	<b>24.2</b>

Property tax revenue is expected to increase by \$9.3 million based on an assessed valuation growth of 8.0%. This is offset by an estimated \$ 0.1 million in property tax losses due to last year's wildfires.

Property Transfer Tax revenue is expected to grow 12.3% over the current year-end estimate; 12.3% is the ten-year average growth rate of this revenue. The Property Transfer Tax is collected only when there is a sale of property (not a refinance). The rate is \$0.55 per \$500. If the sale is in an incorporated area, the city gets half of the transfer tax and the county gets half of the transfer tax. In the unincorporated area, the county gets the entire share.

Vehicle license fee revenue is expected to grow 4.8% over the current year-end estimate (adjusted to include the unpaid backfill). This is based on projections from local economists.

Interest is expected to increase by \$1.8 million based on slightly higher interest rates and a 5% decrease in general fund balance.

COWCAP is expected to increase \$1.5 million based on the ten-year average growth rate of 7.4%.

Sales tax revenues are expected to grow 4.8% over the current year-end estimates. This is based on input from local economists.

Other revenues are expected to increase by \$2.1 million; \$1.2 million of this increase is in Property Tax Administration fees, which rise with property tax revenues. In addition, Franchise Fees, PILT and Aircraft taxes are expected to increase slightly with an offsetting decrease in the Hotel Motel Tax.

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**NEW PROP 172 REVENUE**

Proposition 172, which became effective January 1, 1994, created a one-half percent sales tax rate in the state's constitution to provide funding resources to qualifying public safety services. The Board of Supervisors approved the allocation of this sales tax to the following public safety departments: Sheriff (70%), District Attorney (17.5%) and Probation (12.5%). In 2003-04 the total amount of Proposition 172 sales tax budgeted is \$97.3 million. The current estimate for Proposition 172 revenue that will be received in 2003-04 is approximately \$105.3 million, which is \$8.0 million above the budgeted amount. This growth in 2003-04 and the estimated growth of 7% in 2004-05 translates into \$15.7 million available to assist in financing the 2004-05 increased costs for the three departments mentioned above.

**ESTIMATED ADDITIONAL ONE-TIME MONEY AVAILABLE**

The chart below summarizes estimated additional one-time money, totaling \$37.9 million, that will be available in the 2004-05 budget. Following the chart is additional information regarding these one-time sources.

	(In Millions) One-time
2003-04 Ongoing Contingencies Not Used	13.8
2003-04 Departmental Operation Savings	3.3
Additional Countywide Discretionary Revenue in 2003-04	3.2
General Fund Share of Termination Payments of Solid Waste Investment Agreements in 2003-04	2.0
Additional Tobacco Settlement Proceeds in 2003-04	0.7
Debt Refinancing Savings	2.0
Use of Equity Pool Reserve	0.1
Use of Justice Facilities Reserve	1.0
Solid Waste Transfers	5.0
ARMC Lawsuit Settlement	6.8
<b>One-Time Money Available for 2004-05</b>	<b>37.9</b>

Analysis of the current year's budget status shows existing unused, ongoing contingencies that are available for one-time expenses in 2004-05. In the current year, there is also estimated departmental savings and additional revenue projected to be received that is available for one-time expenses in 2004-05.

On September 17, 2001, the Board authorized the refunding of the 1992 West Valley Detention Center Certificates of Participation. The total debt service savings, which was structured over a three-year period, totals \$7,470,447. In 2002-03 savings of \$1,055,777 was realized and was used, together with \$2.1 million in savings from the refinancing of the 1992 Justice Center/Airport Improvement Project, to prepay \$3.2 million in principal of the Glen Helen Series D taxable debt. In 2003-04, savings of \$4,401,747 was realized, and was set aside with other one-time monies available in 2003-04 to offset potential impacts of the state budget. In 2004-05, the remaining \$2,012,923 in refinancing savings will be realized.

This \$1.0 million use of the Justice Facilities Reserve is to offset the costs of the approved safety MOU and the use of \$0.1 million of the Equity Pool Reserve is to offset approved equity adjustments.

The Solid Waste Enterprise fund has been making an annual payment of \$5.0 million to the general fund since 1995. This payment serves as a reimbursement for the value of certain landfill properties acquired by the county prior to 1983, when the Solid Waste Enterprise fund was established. This reimbursement was approved by the Board of Supervisors on October 31, 1995 and is estimated to cease in 2005-06 once the balance is satisfied. For this reason, the entire \$5.0 million is included as a one-time financing source in 2004-05.

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The ARMC lawsuit settlements totaled \$8.8 million. After final payments pursuant to the settlement agreements, final payments for legal fees, final insurance premiums, and after setting aside \$1.3 million for the remaining estimated costs of shower and floor repairs at the ARMC, \$6.8 million of the settlement monies remain available for appropriation.

**COST TO MAINTAIN CURRENT SERVICES**

The prior sections of this report addressed the financing available for 2004-05. This section will address increased costs in 2004-05 to maintain current services. The chart below summarizes the adjustments to prior year's budget that are included in the financing plan for both one-time and ongoing costs. Following the chart is a brief description of each cost component.

	(In Millions)
MOU Increase in 2004-05	8.7
Retirement Rate Adjustments	15.9
Workers' Comp & Other Insurance Costs	5.4
Central Computer	2.0
Inflation	1.7
High Desert Detention Center	1.3
Unemployment Insurance	1.3
Debt service	0.9
County Fire MOU Increase in 2004-05	0.5
Other Unavoidable Costs	<u>0.7</u>
<b>Total Ongoing Costs</b>	<b>38.4</b>
Financing to Other Funds	4.5
Contribution to Priority Policy Needs	1.0
Transfer Justice Facilities Reserve to Sheriff	1.0
Maintain Contingencies per Board policy	5.6
Contribution To Reserves Per Board Policy	<u>2.4</u>
<b>Total One Time Costs</b>	<b>14.5</b>

**MOU Increase in 2004-05 - \$8.7 million**

The county is in the third year of a three-year agreement with employees represented by the general MOU and the exempt compensation plan. Each of these agreements call for a 3.0% salary adjustment in July 2004 along with increases in the flexible benefit plan, at a net local cost of \$6.1 million. The provision of local cost funding of MOU increases for the previously self-supporting functions of Advanced Planning, Parks, and Museums continues.

The county is in the third year of a three and one-half year labor agreement with employees in the attorney unit. This unit's MOU calls for a 3.0% salary adjustment to be received in July 2004 along with increases in the flexible benefit plan. In addition, this unit will also receive a 1.5% salary adjustment in December 2004. The net local cost of these previously negotiated salary and benefit changes is \$1.05 million.

The county is in the third year of the three and one-half year labor agreement with employees in the specialized peace officers and specialized peace officers-supervisory units. These units' MOU calls for a 1.8% increase effective June 2004 along with increases in the flexible benefit plan. These salary and benefit costs have a net local cost of \$0.5 million.

The county is in the second year of a three-year agreement with employees in the safety and safety management units. These units' MOU calls for a 1.0% salary adjustment in October 2004. While there is no increase in their flexible benefit plan dollars, there are increases to the health and dental plan subsidies provided to employees. The net local cost associated with these previously negotiated salary and benefit adjustments is \$1.05 million.



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**Retirement Rate Adjustments - \$15.9 million**

Employer retirement contributions are composed of two rates: a rate set by the county to cover payment of the existing pension obligation bond and a rate set actuarially by the Board of Retirement. In 2004-05, there was no change to the rate component associated with the pension obligation bonds. The rate from the Board of Retirement, however, increased significantly for both general and safety employees. This increase is the result of increases in unfunded actuarial accrued liabilities (UAAL) and increases in benefit costs associated with the 3% at 50-retirement benefit provided to safety employees. As a consequence of these factors, general employee local cost will rise \$8.5 million and safety employee local cost will increase \$7.4, for a total local cost of \$15.9 million.

**Workers' Comp and Other Insurance Costs - \$5.4 million**

Increases to Workers' Compensation premiums are required to offset increasing expenses for claims. This increase of \$4.0 million is consistent with the five-year recovery plan, which aims to be 70% marginally acceptably funded by 2007-08. Other insurance costs, which include property, liability, surety, and medical malpractice increased by \$1.4 million in local funding requirements.

**Central Computer Rate Increases - \$2.0 million**

In 2003-04, the Information Services Department decreased their rates on a one-time basis to use their surplus retained earnings from prior years. Rates in 2004-05 have been increased to finance the actual costs incurred including the increased costs in MOU, retirement, workers comp, and inflation.

**Inflation - \$1.7 million**

Based on the most recently available economic forecasts from the California Department of Finance, a general inflation rate of 2% was used in the development of the 2004-05 budget. Inflation-related increased costs of goods and services based on this rate are projected to require an additional \$1.1 million in local funding. In addition, there is approximately \$596,000 in local cost increases in the Utilities budget due to the projected utility rate increases.

**High Desert Detention Center - \$1.3 million**

On February 3, 2004, the Board approved funding and staffing for the High Desert Detention Center scheduled to open in September 2004. Increases in local funding for this facility are reflected in the Facilities Management budget unit (\$185,184) and the Probation budget unit (\$1,121,300).

**Unemployment Insurance - \$1.3 million**

Unemployment insurance (UI) costs are increasing by \$1.3 million due to the elimination of the Public Service Employee positions, which have resulted in a greater number of former County employees that are now eligible to receive UI benefits. In addition, the maximum weekly benefits paid by the state, but reimbursed by the county, have increased from \$230 to \$410 effective January 4, 2004.

**Debt Service - \$0.9 million**

The 2002 Justice Center/Airport Improvements Financing Project refinanced the costs of constructing the Foothill Law and Justice Center and four airport assembly buildings at the Chino Airport. To date, the portion of debt service allocable to the airport assembly buildings has been paid by revenues from the lease of these buildings and a lease termination payment made by Lockheed in 1996. Beginning in 2004-05 it is anticipated that there will be insufficient lease revenues to cover any of the Airport's \$ 0.9 million share of the debt service, and is the reason for the local cost increase included in the proposed targets.

**County Fire MOU Increase - \$0.5 million**

County Fire is in the second-year of its three-year MOU. This MOU calls for a 2.5% salary increase in October 2004. The general fund subsidy for these costs will increase \$0.5 million.

**Other Unavoidable Costs - \$0.7 million**

The net change in other unavoidable costs is \$0.7 million, the major changes include the loss of local match share for CalWorks payments and increases in the local cost share of Human Services System entitlement payments. This rise in costs is offset by a reduction in local cost in the Probation's Court Ordered Placements budget unit of \$1.0 million due to fewer projected placements.

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**Financing to Other Funds - \$4.5 million**

Capital Improvements - As part of the financing plan, \$3.5 million has been allocated to the Capital Improvement Program.

General Plan Update - The county general fund has been contributing money to finance a portion of the general plan update. To date \$3.5 million has been allocated for this purpose. An additional \$1.0 million will be allocated in 2004-05. The remaining planned contribution will be \$0.5 million in 2005-06.

**Contingencies - \$5.6 million/Contributions to Reserves - \$2.4 million**

These funding recommendations are based on established county policy discussed later in this memo.

**SUMMARY OF PRELIMINARY 2004-05 FINANCING PLAN**

	(In Millions)	
	Ongoing	One-time
Financing available	54.2	67.3
Cost to Maintain Current Services	(38.4)	(14.5)
2004-05 County Surplus	15.8	52.8

This report has identified \$54.2 million in ongoing financing available and \$67.3 million in one-time financing available in 2004-05. This report also recommends to use \$38.4 million in ongoing financing to fund increased costs to maintain current services and \$14.5 million in one-time financing to adhere to county policy and finance capital improvement projects. After financing these increased costs, the county is projected to have available discretionary ongoing revenues of \$15.8 million.

**STATE BUDGET IMPACT**

On January 9, 2004, the Governor's Proposed Budget for 2004-05 was announced. The County Administrative Office immediately enlisted departments' assistance in identifying specific budget impacts. If the January 9th budget submitted by the governor is adopted, the total fiscal impact to the County of San Bernardino is expected to be \$76.6 million for 2004-05. Of this amount, \$56.2 million will impact the availability of discretionary revenue, which funds departmental local cost. These state budget impacts are all believed to be on-going in nature, rather than a one-year impact. For that reason, on-going cuts need to be identified.

Discretionary Revenue Taken by State	\$32.7 million
Reduced In Home Supportive Services Support from State	\$10.4 million
Continuation of State Cuts – Built in 2003-04 County Budget	\$ 7.2 million
Mandated Backfill due to State Cut	\$ 1.4 million
Direct State Cuts to County Departments	<u>\$ 4.5 million</u>
	\$56.2 million

Typically budget targets are issued to county departments based on the projected increase in available financing and the estimated increase in known costs to maintain the current services provided within the county. However, this is the second year in a row that the county has a gray cloud hovering over us that can lead to a significant downpour at anytime. Because of the uncertainty of the 2004-05 State Budget, plans need to be put in place in order to ensure the county remains financially structured in 2004-05.

Even if the present plan submitted by the Governor does not come to pass, it is strongly believed there will be significant impacts to the county's discretionary revenue but the exact amount is not known. This report recommends that the county develop their 2004-05 budget targets assuming the discretionary revenue of \$32.7 million, which is a portion of the county's property tax and all of the county's booking fee revenue, is taken.

The proposed budget targets do not include the backfill for the \$10.4 million with the assumption that the county will not exceed the state's funding level of the IHSS provider hourly wage. If this assumption does not materialize, further reductions will need to be made. The \$7.2 million and \$1.4 million mentioned above is factored into the proposed 2004-05 budget targets. The \$4.5 million is not factored into the proposed 2004-05 budget targets and is recommended to be absorbed within the particular department that had received the funds. This recommendation follows the same guidelines as grants received by departments.

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It should be noted that the Probation Department will be losing \$4.2 million and may have to eliminate programs that may be cost effective to alleviate over crowding in juvenile hall.

**SUMMARY OF STATE BUDGET IMPACT TO 2004-05 FINANCING PLAN**

	(In Millions)	
	Ongoing	One-time
Financing available	54.2	67.3
Cost to Maintain Current Services	(38.4)	(14.5)
2004-05 County Surplus	15.8	52.8
Set Aside for Future Retirement Costs	(7.9)	0.0
Available for State Budget Hit	7.9	52.8
Discretionary Revenue Taken By State	(32.7)	0.0
Resulting 2004-05 County Deficit	(24.8)	52.8

**21% NON-MANDATED LOCAL COST REDUCTION**

The prior sections of this report addressed the county financing available, the known new costs for 2004-05 and the potential state budget impact. Based on the January proposal of the state budget, the county needs to reduce their budget by a minimum of \$24.8 million, which is equivalent to a 11% reduction in non-mandated local cost if proportionately distributed to all general fund departments. For this financing plan, mandated costs have been narrowly defined as specifically quantifiable, unavoidable costs. This section addresses the proposal of requesting general fund departments to build their 2004-05 budget with a local cost reduction that is 21% of their 2004-05 non-mandated local cost as detailed in 2004-05 Preliminary Target Worksheet (Attachment A). This proposal reflects a form of zero-based budgeting.

Zero-based budgeting is a technique by which budget requests must be justified in complete detail by each function starting from a level well below the existing level of funding. While in theory, the starting point is zero, few practitioners of zero based budgeting require rejustification of every dollar. More typically, the analysis usually begins at 70%-80% of the current level of funding. This technique is used when planning and decision-making is made on a priority basis. Since this budgeting process requires a re-examination of existing levels of functions, instead of the traditional focus on increments, it would require a significant amount of staff time to implement each year. The County Administrative Office believes that this is a good technique to implement a modified form of this budgeting technique in the upcoming 2004-05 budget year due to the potential state budget hit.

By having all general fund departments build their 2004-05 budget with 21% less in non-mandated local financing, there will be approximately \$46.0 million in possible reductions in general fund departmental budgets. During budget workshops in late May, the County Administrative Office will be recommending that the Board of Supervisors restore \$21.2 million of these reductions based on county priorities and the remaining \$24.8 million in reductions be approved in the county budget pending the adoption of the state budget.

**COUNTY FINANCING POLICIES**

In 1998 the county adopted a formal budget financing policy and a reserve policy. The key elements of these policies are described below:

**Budget Finance Policy**

- One-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period.
- No less than one-third will be allocated to increasing reserves to the 10% target level as defined in the County's Reserve Policy.

**Reserve Policy**

- The county shall establish an ongoing general-purpose reserve for the general fund targeted at 10% of locally funded appropriations.
- The county will maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations, which could not have been reasonably anticipated at the time the budget was prepared. Funding shall be targeted at no less than 1.5% of locally funded appropriations.

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The definition of locally funded appropriations is defined as those which are funded by discretionary, unrestricted property tax, sales tax, motor vehicle-in-lieu taxes, interest income, and other revenues not linked to specific programs.

For 2004-05, the locally funded appropriations are projected to be \$372.1 million. A general reserve requirement of 10% would be \$37.2 million and an appropriated contingency of 1.5% would require \$5.6 million.

The financing plan includes \$5.6 million in the county contingency budget and recommends a contribution of \$2.4 million to the general purpose reserves to satisfy the requirements of these policies.

The county has several types of reserves. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general reserves are funds held to protect the county from unforeseen increases in expenditure or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. All of these reserves are one-time in nature and can only be used as a temporary fix. They are not viewed by staff as appropriate remedies for the likely state budget cuts, as those are on-going cuts.

A listing of those reserves and the planned contributions are shown below:

<b><u>COUNTY RESERVES</u></b>			
	<b>Estimated June 30, 2004 Balance</b>	<b>Recommended Contribution /(Use)</b>	<b>Estimated June 30, 2005 Balance</b>
<b>General Purpose Reserves</b>	<b>34,823,568</b>	<b>2,388,781</b>	<b>37,212,349</b>
Specific Purpose Reserves			
Medical Center Debt Service	32,074,905		32,074,905
Teeter Reserve	19,260,087		19,260,087
Restitution Reserve	2,114,234		2,114,234
Retirement Reserve	7,000,000		7,000,000
Equity Pool Reserve	4,396,690	(122,711)	4,273,979
Insurance Reserve	5,000,000		5,000,000
Capital Projects Reserve	4,000,000		4,000,000
Bark Beetle Reserve	1,830,300		1,830,300
Justice Facilities Reserve	3,885,408	(1,000,000)	2,885,408
West Valley Maximum Security	1,492,986		1,492,986
Reserve for Museum Paleontology	865,000		865,000
<b>Total Specific Purpose</b>	<b>81,919,610</b>	<b>(1,122,711)</b>	<b>80,796,899</b>
<b>Total Reserves</b>	<b>116,743,178</b>	<b>1,266,070</b>	<b>118,009,248</b>

As demonstrated above, the new contribution of \$2.4 million would bring the total general-purpose reserves to \$37.2 million.

The total specific purpose reserves are decreased to \$80.8 million based on the use of \$1.0 million from the Justice Facilities Reserve and \$0.1 million from the Equity Pool Reserve.

**SALARY SAVING OPTIONS**

Salary and benefit costs represent approximately 83% of the county's general fund expenditures. Since this is a significant percent of expense, the County Administrative Office and the Human Resources Department are exploring several cost saving options. Those options fall into four categories:

1. Unpaid Time Off
2. Freeze/Reduce Wages and Other Benefits
3. Staff Reductions
4. Miscellaneous

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The category of unpaid time off includes such cost reduction measures as furloughs, voluntary time off, and a reduced number of hours in the workweek. In the category of freeze/reduce wages and other benefits, several possibilities are being explored which include the possible deferral of across the board increases, deferral of increases in the flex plan, reducing benefits, reducing retirement contributions, creating a second retirement tier, etc. Possible salary saving options in the staff reductions category includes layoffs and golden handshakes. Lastly, the miscellaneous option incorporates such options as scheduling comp time off, restricting overtime/standby/on call, eliminating special assignment compensation, and a moratorium on reclassifications of filled positions.

As can be expected, these options will require detailed analysis. In addition, several of these options will require re-negotiation with the employee unions. Therefore, policy direction is needed from the Board of Supervisors regarding which, if any, salary savings options to pursue.

**CONCLUSION**

This report has identified \$54.2 million in ongoing financing available and \$67.3 million in one-time financing available in 2004-05. This report also recommends to use \$38.4 million in ongoing financing to fund increased costs to maintain current services and \$14.5 million in one-time financing to adhere to county policy and finance capital improvement projects. After financing these increased costs, the county is projected to have available discretionary ongoing revenues of \$15.8 million.

This report recommends that half of the \$15.8 million be used to offset the \$32.7 million in discretionary revenue that the state has proposed to take away. As a result, the county needs to reduce general fund financing by \$24.8 million. The County Administrative Office is proposing to implement a modified form of zero based budgeting, which would generate approximately \$46.0 million in reductions. These reductions would be available for the Board's consideration to implement the required \$24.8 million and potentially restore \$21.2 million during the budget workshops in late May.

The County Administrative Office will continue to monitor the state budget process for fiscal impacts as well as continue to refine our own estimates of fund balance and revenues available for next fiscal year. This office will also incorporate into the plan any mid-year actions, which may take place during the remainder of this fiscal year.

**REVIEWED AND APPROVED BY OTHERS:** This item has been reviewed by County Counsel (Ruth Stringer, Assistant County Counsel, 7-5451) on February 25, 2004.

**SUPERVISORIAL DISTRICT(S):** All

**PRESENTER:** Wally Hill (387-5418)